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MORTGAGE PROSPECTS FOR 1956

THE books are closing on what has been far and away the greatest business year in U. S. history. Total output of goods and services in 1955, based on preliminary estimates, will approach $390 billion, compared to $360 billion last year, and an alltime high. In October-December alone, it appears, the American economy has been humming along at the astonishing clip of nearly $400 billion per year.

Forecasts for 1956, moreover, appear to be universally bullish. Secretary of Commerce Sinclair Weeks, not long ago, predicted that the first half of next year also would shatter all previous marks, and, while declining to look beyond June 30, added that he was hopeful about the second half as well. Secretary Weeks's views are shared by the Prudential Insurance Co. of America, which, though on the conservative side, accurately called the turn on this year's upswing. A fortnight ago, its president, Carrol M. Shanks, flatly predicted that the gross national product will rise to an unprecedented $410 billion in 1956. Specifically, Prudential looks for a rise of over $13 billion in personal income; $11 billion in consumer spending; $3 billion in the capital outlays of industry; and $1 billion in total Government spending.

Two important surveys, released in recent weeks, tend to reinforce such optimism. According to the Department of Commerce, total outlays on new construction, both private and public, next year will rise to $44 billion, 5% above this year's indicated record of $42 billion. An authoritative McGraw-Hill report reveals that industry next year will spend some $32 billion on new plant and equipment, several billion higher than current outlays. In the same sphere, the latest word from the Securities and Exchange Commission, covering prospects for capital spending in January-March, is equally cheerful.

There is, however, a minority view of the business outlook which is worth noting. Some observers, in banking circles especially, find the unanimity described above less than reassuring. Last week, for example, Dr. E. Sherman Adams, who heads the Department of Monetary Policy of the American Bankers Association, pointedly asked in a speech at Ann Arbor: "Are we heading for trouble?" Dr. Adams appeared particularly concerned about the huge expansion of private debt, which, he pointed out, has risen by nearly $160 billion in the past half dozen years. "Never before have so many owed so much more so fast,"

he went on to say. Others are growing increasingly concerned over the accumulated pile-up of inventory. In October-November, the figures reveal, total business stocks climbed at an annual rate of more than $8 billion, which seems too fast for comfort. If accumulation of inventory should give way to liquidation, as has occurred several times in the postwar period, the forward surge of the economy could receive a sharp and unexpected check some time next year.

Be that as it may, it's perfectly clear that the early months of 1956, at least, will be exceedingly prosperous ones, in which the nation's productive capacity, as at the moment, will be straining to meet the heavy demands put upon it. In this kind of economic setting it is difficult to anticipate any overnight shift toward easier credit. As noted here in early September, sweeping price movements in any market tend to last longer and carry farther than is generally expected. Events of the past few months have made it amply clear that the tide is still running in the direction of stringency. Toward the end of November, to summarize briefly, the Federal Reserve Banks raised their rediscount rates to $2\frac{1}{2}$%, highest in decades. Treasury bills have climbed to a yield of 2.45%, actually above the 1953 level and the highest interest cost for this type of borrowing since 1933. The whole family of short-term money rates, including bankers' acceptances, commercial paper, and bank loans to brokers and dealers, have climbed in sympathy. In the field of housing and home finance, the effects of tighter credit have been equally noteworthy. The Public Housing Administration early this month announced the cancellation of part of a proposed $90 million offering of Temporary Loan Notes, rates on which have climbed from .62% in January to 1.48% in mid-November. At the same time, before the Housing Subcommittee of the Senate Banking and Currency Committee recently, FHA Commissioner Norman P. Mason revealed some unusual nationwide data regarding current and past discounts on FHA mortgages. Since the turn of the year, the figures indicated, prices of home liens reported by FHA insuring offices in cities throughout the U. S. have slipped from 99.5 to an average of 98.2 (typical for Section 203-insured mortgages available for immediate delivery). In some parts of the U. S., notably the Southeast, the Southwest and the West, prices are running around 97.6-97.7. These figures are not based on FHA records of actual transactions, nor have they been weighted to reflect the volume of transactions at various prices, but they do serve as a general barometer of the state of the overall market.

This does not mean that moves to ease mortgage credit will not be taken. Indeed, some already have been made. In October, for example, the Federal National Mortgage Association suspended the sale of loans acquired before its rechartering some 12 months ago. By the same token, in mid-November FHA revised its administrative rules covering Sections 220 and 221 of the National Housing Act, to permit a higher ratio of loan to replacement cost and value, and to permit an increase in the maximum term of the mortgage. Under Section 220, Home Rehabilitation Insurance, the maximum lien was upped from 93% to 95% on the first $9,000 of replacement cost (and from 73% to 75% above this figure). Similarly, under Section 221, the Home Relocation Insurance Program, the ratio of loan to value also has been raised from 93% to 95% to the owner-occupant

mortgagor (where the latter is not the owner-occupant, the ratio was raised from 83% to 85%). Under both sections, the maximum term of the mortgage was extended from 25 years to 30.

Other steps appear imminent. This week the Federal Home Loan Bank Board relaxed the curb it placed on borrowing by its members in September. Under a new policy of 'stand-by credit,' FHLBB will permit these institutions to borrow an additional amount equal to 5% of their savings deposit, provided the total borrowings do not exceed 10% of their deposit. Such credit will enable some associations to make loans in marginal cases, where they could not be sure that funds from regular savings and loan repayments would suffice to cover commitments. Reports from Washington also suggest that the FHA and VA may retreat to some extent from the curbs they imposed in July. It's possible that this would involve a return to the 30-year maximum mortgage, from the 25-year limit currently prevailing.

The prospect of such action by the housing agencies, and the various rumors involving its details and timing, have preoccupied the home finance industry for weeks. The fact is, however, that regardless of what may be done in terms of Federal regulations, it will have only a limited impact on the mortgage market. This seems particularly true of the Home Loan Bank Board, around which much of the discussion has centered. For while the Board's announced crackdown in September may have caused a few lenders temporary embarrassment, it apparently did not prevent an overall increase in the amount of Home Loan Bank credit made available to members.

On August 31, just prior to the Board's move, the balance of advances outstanding to its member institutions amounted to $1,187 million, up from $717 million in January, an average monthly rise of around $60 million. On November 7, according to an address before the 63d Annual Convention of the U. S. Savings and Loan League, by Walter W. McAllister, chairman of FHLBB, such advances had risen to $1,400 million, or by more than $200 million. This rate of borrowing, one hundred million a month, it is true, is lower than the $45 million per week which, according to Mr. McAllister, was being withdrawn from the system around the first of September. Nonetheless, the data suggest unmistakably that the Home Loan Bank System, far from cutting off credit to its members entirely after September, as the ensuing furor suggested, merely has slowed down the process. Hence it appears to follow, logically, that any relaxation made at this point - particularly the cautious ones indicated - will have only a limited general effect.

More significant, of course, is the question of demand and supply in mortgage money. Let's examine each in turn. As to demand, it obviously continues heavy. In the first 9 months of 1955, according to official FHLBB statistics, nonfarm mortgage recordings of $20,000 or less ran to $21.6 billion, more than 31% ahead of the $16.4 billion reported in the corresponding period of 1954. In September alone, such recordings topped $2.5 billion, nearly 19% ahead of

the $2. 1 billion of the like month of last year. For 1955 as a whole, accordingly, the total of home mortgages recorded is likely to hit $28 billion, compared to $23 billion in 1954. To be sure, one or two signs of slackening have appeared in some quarters lately, notably in VA lending. In October, appraisal requests on new homes, usually considered a harbinger of lending activity, dipped to 41,795, from 45,063 in September, the lowest total for the year to date and actually below the total in October 1954. Similarly, appraisal assignments on existing dwelling units numbered only 28,289 in October, compared to 36,925 twelve months previous. While these figures might suggest some decline in VA lending next year, it's interesting to note that the Agency itself is far from pessimistic. Last month, Thomas J. Sweeney of the VA told the Mortgage Bankers Association of America that his Agency will have guaranteed 620,000 home loans, totaling $6. 8 billion, in 1955, the greatest volume for any calendar year in its history. Moreover, for 1956 he forecast that veterans will buy at least 400,000 new homes and 260,000 existing dwellings with VA-guaranteed funds, absorbing some $7 billion of mortgage money. It is also worth noting that the hardening of interest rates has given renewed vigor to conventional mortgage lending. Some current data prepared by the Federal Reserve Board underscore this point. In the third quarter of 1955, U. S. -underwritten home mortgage debt increased by $1. 4 billion, compared with $2 billion in April-June. By contrast, conventional home mortgage loans outstanding in this period rose by $2. 2 billion, against $1. 5 billion in the second quarter. Hence, conventional liens accounted for 60% in the rise of home mortgage debt in July-September, a striking rise from 40% in the second quarter.

So much for demand. As to supply, there is no sign of any sudden increase in the amount of funds available for home loans. For one thing, competition for long-term money, from States and municipalities and corporate enterprise, remains keen. New security offerings in 1955, for example, are expected to approach or equal the $10 billion record set in 1929. For another, personal savings, the reservoir from which all long-range investment must flow, have been lagging of late. In the third quarter of this year, for example, savings amounted to only 5. 8% of disposable personal income, compared to 6. 5% a year ago. It's possible - even probable - that savings will rise some time after the turn of the year, as the present buying splurge of the public, which has pushed consumer debt to record levels, runs its inevitable course. This might coincide with the aforementioned inventory shift, a combination which could tilt the credit balance toward greater ease. But based on the foregoing figures, this is not apt to happen until spring, if at all.

One final note about next year's outlook seems in order - 1956, of course, will be an election year, and housing and home finance will scarcely be immune to politics. The Administration's housing program has been the target for considerable criticism by Democratic lawmakers. For their part, the housing agencies have indicated an interest in expanding their activities, notably into the field of shelter for the aged. One way or another, then, it seems that next year will see considerable activity on the legislative front.